

Financial Statements
Livingston County Community
Mental Health Authority

Howell, Michigan

September 30, 2005



Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Livingston County Community Mental Health	County Livingston
Audit Date 9/30/05	Opinion Date 1/31/06	Date Accountant Report Submitted to State: 3/28/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

RECEIVED
DEPT. OF TREASURY

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

MAR 30 2006

LOCAL AUDIT & FINANCE DIV.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGR).			✓

Certified Public Accountant (Firm Name) Roslund, Prestage & Company, P.C.			
Street Address 308 Gratiot Avenue		City Alma	State MI
Accountant's Signature 		ZIP 48801	Date 3/28/06

Livingston County Community Mental Health Authority
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September 30, 2005

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INDEPENDENT AUDITOR'S REPORT

Livingston County Community Mental Health Authority
Howell, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Livingston County Community Mental Health Authority (the Authority), as of and for the year ended September 30, 2005, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Authority as of September 30, 2005, and the respective changes in financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 31, 2006 on our consideration of the Authority's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages I-III, and budgetary comparison information on pages 23 – 25, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Authority. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Roslund, Prestage & Co, P. C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

January 31, 2006

MANAGEMENT'S DISCUSSION and ANALYSIS

**Livingston County Community Mental Health Authority
Financial Statements for Fiscal Year Ended September 30, 2005
Management's Discussion and Analysis**

The management of Livingston County Community Mental Health Authority (LCCMHA) presents the following overview and analysis of financial activities during the past fiscal year. LCCMHA was created as a Mental Health Authority effective October 1, 1998.

Overview of Financial Statements

Two types of financial statements are provided: Government-wide Financial Statements and Fund Financial Statements.

The government-wide financial statements are designed to provide readers with a broad overview of the organization's finances in a manner similar to a private sector business.

The Statement of Net Assets presents information on all of LCCMHA's assets and liabilities with the difference between assets and liabilities being reported as net assets. Changes in net assets serve as a useful indicator in determining whether the financial position is improving or deteriorating.

The Statement of Activities presents information showing how net assets changed during the fiscal year. Reporting of activities is on an accrual basis meaning that the change in net assets is reported as soon as the underlying event giving rise to the change occurs regardless of the timing of the related movement of cash.

The fund financial statements report groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. LCCMHA, as a governmental authority, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. LCCMHA funds include the General Fund and the Children's Pooled Funding Initiative Fund. Both of these funds are considered "Governmental Funds".

Governmental funds have a narrower focus than that of the government-wide financial statements in that its focus is on the short-term movement of spendable resources and on the balances of spendable resources available at the end of the fiscal year.

**Livingston County Community Mental Health Authority
Financial Statements for Fiscal Year Ended September 30, 2005
Management's Discussion and Analysis**

Comparison with Prior Year

Fiscal year 2004 revenues and expenses compared to fiscal year 2005 follows:

	2004	2005	\$ Change	% Change
General Fund				
Revenues	\$16,155,134	\$17,367,981	\$1,212,847	7.5%
Expenses	15,818,694	16,979,656	1,160,962	7.3%
Children's Pooled Funding Initiative Fund				
Revenues	166,276	168,381	2,105	1.3%
Expenses	291,333	292,133	800	0.3%

Strength of Financial Position

Changes in financial position which help ensure the agency's future ability to provide services are:

	Balance at 10-1-2004	Increase (Decrease)	Balance at 9-30-05
General Fund Balance			
Restricted	\$135,891	\$290,974	\$426,865
Unrestricted	2,027,214	23,609	2,050,823
Children's Pooled Funding Initiative Fund Balance			
Restricted	551,876	(54,726)	497,150
Totals	\$2,714,981	\$259,857	\$2,974,838

The general fund unrestricted fund balance increased 1.2% and restricted fund balance increased 214.1%. The majority of this substantial increase in restricted fund balance is because the monthly operating advances extended to group homes were not refunded to LCCMHA as of September 30, 2005.

**Livingston County Community Mental Health Authority
Financial Statements for Fiscal Year Ended September 30, 2005
Management's Discussion and Analysis**

About Fiscal Year 2005

This is the third year that the four-county affiliation, known as the Community Mental Health Partnership of Southeast Michigan has successfully managed the funding and reporting requirements of a Prepaid Inpatient Health Plan for the Medicaid dollars. Each member still holds a separate contract for the state General Fund and other state funding. The Partnership members consist of Lenawee, Livingston, Monroe and Washtenaw counties.

The Partnership has successfully transitioned each affiliate member to the Encompass software application for electronic records processing and authorization management, claims processing and adjudication, encounter reporting and cost submission and numerous other centralized computer functions. Encompass has provided the Partnership employees with a software application that is designed for the Michigan Department of Community Health's Person Centered Planning process along with the other documents required to provide services to the affiliation's consumers. The electronic documents are standardized across the affiliation, flexible so that changes can be accommodated quickly, and the software is Web based for easy accessibility.

In addition to the transition to Encompass, Livingston Community Mental Health Authority has purchased financial software to handle the accounting and payroll functions for Livingston. The software was purchased at the end of the Fiscal Year and we anticipate full implementation by the end of May 2006.

About the Future

The affiliation has accomplished a great deal this past fiscal year. Many improvements were made to the Encompass software. Employees are viewing the other affiliates as part of the same organization with the shared goal of serving consumers in our region in a way that meets their needs while still maintaining a strong community based system that responds to the unique needs of each county's community.

**BASIC FINANCIAL STATEMENTS -
GOVERNMENT WIDE FINANCIAL STATEMENTS**

Livingston County Community Mental Health Authority
Statement of Net Assets
September 30, 2005 and 2004

	Governmental Activities	
	2005	2004
Assets		
Current assets		
Cash and cash equivalents	\$3,343,505	\$3,054,920
Accounts receivable, net	11,475	22,086
Due from other governmental units	1,406,226	1,291,886
Prepaid items	426,865	135,891
Total current assets	5,188,071	4,504,783
Noncurrent assets		
Capital assets - depreciable, net	1,006,413	1,137,465
Total assets	6,194,484	5,642,248
Liabilities		
Current liabilities		
Accounts payable	1,197,197	639,828
Deferred revenue	354,349	336,572
Due to other governmental units	479,846	678,975
Accrued wages and other payroll liabilities	181,841	134,427
Current portion of long term debt	10,677	10,318
Total current liabilities	2,223,910	1,800,120
Noncurrent liabilities		
Notes payable	11,214	22,249
Compensated absences	180,493	160,112
Total noncurrent liabilities	191,707	182,361
Total liabilities	2,415,617	1,982,481
Net Assets		
Invested in capital assets, net of related debt	984,522	1,104,898
Restricted for grant	497,150	551,876
Unrestricted	2,297,195	2,002,993
Total net assets	\$3,778,867	\$3,659,767

See Accompanying Notes To Financial Statements

Livingston County Community Mental Health Authority

Statement of Activities

For the year ended September 30, 2005, With Comparative Data

Functions	Program Revenues			Net (Expense) Revenue and Changes Net Assets	2004
	Expenses	Charges for Services	Operating Grants and Contributions		
Governmental activities					
Health & Welfare - Mental Health	<u>\$17,424,058</u>	<u>\$12,444,054</u>	<u>\$5,030,829</u>	\$50,825	(\$11,190)
General revenues					
Unrestricted investment earnings				<u>61,479</u>	<u>61,941</u>
Total general revenues and contributions				<u>61,479</u>	<u>61,941</u>
Change in net assets				112,304	50,751
Net assets - beginning of year				3,659,767	3,613,325
Prior period adjustment				<u>6,796</u>	<u>(4,309)</u>
Net assets - end of year				<u>\$3,778,867</u>	<u>\$3,659,767</u>

See Accompanying Notes To Financial Statements

FUND FINANCIAL STATEMENTS

Livingston County Community Mental Health Authority
Balance Sheet
Governmental Funds
September 30, 2005, With Comparative Data

MAJOR FUNDS

	General Fund	Children's Pooled Funding Initiative	Total Governmental Funds	2004
Assets				
Cash and cash equivalents	\$2,836,730	\$506,775	\$3,343,505	\$3,054,920
Accounts receivable, net	11,475	-	11,475	22,086
Due from other governmental units	1,406,226	-	1,406,226	1,291,886
Prepaid items	426,865	-	426,865	135,891
Total assets	<u>\$4,681,296</u>	<u>\$506,775</u>	<u>\$5,188,071</u>	<u>\$4,504,783</u>
Liabilities				
Accounts payable	\$1,187,572	\$9,625	\$1,197,197	\$639,828
Deferred revenue	354,349	-	354,349	336,572
Due to other governmental units	479,846	-	479,846	678,975
Accrued wages and other payroll liabilities	181,841	-	181,841	134,427
Total liabilities	<u>2,203,608</u>	<u>9,625</u>	<u>2,213,233</u>	<u>1,789,802</u>
Fund balances				
Restricted for grant	-	497,150	497,150	551,876
Reserved for prepaid items	426,865	-	426,865	135,891
Unreserved	2,050,823	-	2,050,823	2,027,214
Total fund balances	<u>2,477,688</u>	<u>497,150</u>	<u>2,974,838</u>	<u>2,714,981</u>
Total liabilities and fund balances	<u>\$4,681,296</u>	<u>\$506,775</u>	<u>\$5,188,071</u>	<u>\$4,504,783</u>

See Accompanying Notes To Financial Statements

Livingston County Community Mental Health Authority
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds
To Net Assets of Governmental Activities on the Statement of Net Assets
For the year ended September 30, 2005

Total fund balance - governmental funds \$2,974,838

Amounts reported for governmental activities in the statement of
net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported in the funds.

Add: capital assets

1,702,687

Deduct: accumulated depreciation

(696,274)

Some liabilities are not due and payable in the current period and
therefore are not reported in the funds. Those liabilities consist of:

Deduct: Note payable

(21,891)

Deduct: Compensated absences

(180,493)

Net assets of governmental activities

\$3,778,867

See Accompanying Notes To Financial Statements

Livingston County Community Mental Health Authority
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended September 30, 2005, With Comparative Data

MAJOR FUNDS

	General Fund	Children's Pooled Funding Initiative	Total Governmental Funds	2004
REVENUES				
State grants				
MDCH - General fund contract	\$3,803,443	-	\$3,803,443	\$3,837,822
Other state grants	93,614	-	93,614	115,211
Total state grants	3,897,057	-	3,897,057	3,953,033
Federal grants	496,224	-	496,224	687,833
Contributions - local units				
County appropriations	600,468	-	600,468	600,468
Charges for services				
Medicaid - Washtenaw CMH	11,776,543	-	11,776,543	10,277,099
Medicaid - other	137,054	-	137,054	163,362
Other charges for services	372,457	\$158,000	530,457	529,013
Total charges for services	12,286,054	158,000	12,444,054	10,969,474
Interest and rents				
Interest	51,098	10,381	61,479	61,941
Rents	7,260	-	7,260	1,626
Total interest and rents	58,358	10,381	68,739	63,567
Other revenue				
Contributions	-	-	-	316
Miscellaneous	29,820	-	29,820	46,719
Total other revenue	29,820	-	29,820	47,035
Total revenues	17,367,981	168,381	17,536,362	16,321,410

See Accompanying Notes To Financial Statements

Livingston County Community Mental Health Authority
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended September 30, 2005, With Comparative Data

	MAJOR FUNDS		
	General Fund	Children's Pooled Funding Initiative	Total Governmental Funds
EXPENDITURES			
Health & Welfare - Mental Health			
Personnel costs	\$7,094,759	\$142,432	\$7,237,191
Operating expenditures	9,877,332	149,701	10,027,033
Capital outlay	7,565	-	7,565
Total expenditures	16,979,656	292,133	17,271,789
Revenues over (under) expenditures	388,325	(123,752)	264,573
Other financing sources (uses)			
Operating transfers in	175,654	244,680	420,334
Operating transfers out	(244,680)	(175,654)	(420,334)
Operating transfers out - other governmental units	-	-	-
Loan proceeds	-	-	-
Debt payments	(11,512)	-	(11,512)
Total other financing sources (uses)	(80,538)	69,026	(11,512)
Excess of revenues and other sources over expenditures and other uses	307,787	(54,726)	253,061
Fund balance, beginning of year	2,163,105	551,876	2,714,981
Prior period adjustment	6,796	-	6,796
Fund balance, end of year	\$2,477,688	\$497,150	\$2,974,838
			\$2,714,981

See Accompanying Notes To Financial Statements

Livingston County Community Mental Health Authority
 Reconciliation of the Statement of Revenues, Expenditures
 And Changes in Fund Balances of Governmental Funds
 To the Statement of Activities
 For the year ended September 30, 2005

Net change in fund balances - total governmental funds	\$253,061
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Add: capital outlay	7,565
Deduct: depreciation expense	(89,611)
Deduct: loss on disposal of fixed assets	(49,006)
Payment of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt).	10,676
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Deduct: increase in accrual for compensated absences	(20,381)
Change in net assets of governmental activities	<u>\$112,304</u>

See Accompanying Notes To Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

Livingston County Community Mental Health Authority
Notes To Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Livingston County Community Mental Health Authority (the Authority) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Authority.

Reporting Entity

The Authority operates as a Community Mental Health Authority under the provisions of Act 258 - Public Acts of 1974, as amended. The Authority provides funding for services in the areas of mental illness, developmental disabilities, and other related mental health needs for residents of Livingston County.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Authority's reporting entity, and which organizations are legally separate, component units of the Authority. Based on the application of the criteria, the Authority does not contain any component units.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Authority. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

Livingston County Community Mental Health Authority
Notes To Financial Statements

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Basis of Presentation

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Livingston County Community Mental Health Authority
Notes To Financial Statements

Governmental Fund Financial Statements - The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Modifications to the accrual basis of accounting include:

- Employees' vested annual leave is recorded as expenditures when utilized. The amount of accumulated annual leave unpaid at September 30, has been reported only in the government-wide financial statements.
- Interest on general long-term obligations is recognized when paid.
- Debt service expenditures and claims and judgments are recorded only when payment is due.

The Authority reports the following major governmental funds:

General Fund - This fund is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in other funds.

Children's Pooled Funding Initiative Fund - This fund accounts for the financial activities of the child and family collaborative funding arrangement providing wraparound services to the residents of Livingston County.

Comparative Data

Comparative total data for the prior year has been presented in order to provide an understanding of the changes in financial position and operations. Also, certain amounts presented in the prior year may have been reclassified in order to be consistent with the current year's presentation.

Livingston County Community Mental Health Authority
Notes To Financial Statements

Budgetary Data

Budgets are adopted by the Authority for all governmental funds. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is also adopted at the function level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

Cash and Cash Equivalents

The Authority's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and certificates of deposit.

Michigan Compiled Laws, Section 129.91, authorizes the Authority to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Authority's deposits are in accordance with statutory authority.

Receivables and Payables between Funds

Activity between funds that are representative of lending / borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to / from other funds" (i.e. the current portion of interfund loans) or "advances to / from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to / from other funds". Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as "internal balances".

Livingston County Community Mental Health Authority
Notes To Financial Statements

Receivables

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts.

Due from other governmental entities consist primarily of amounts due from Washtenaw Community Mental Health and the State of Michigan.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Inventory

The Authority does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are expensed when purchased.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated fixed assets are recorded at their estimated fair value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

The Authority does not have infrastructure type assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements and proprietary fund financial statements.

Livingston County Community Mental Health Authority
Notes To Financial Statements

Capital assets of the Authority are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Land	N/A
Buildings and Improvements	10 – 27
Equipment	5 – 10
Furniture and Fixtures	15
Computers	5
Automobiles	4

Deferred Revenue

Deferred revenues arise when resources are received by the Authority before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Authority has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and government-wide financial statements, and revenue is recognized.

Governmental Fund – Fund Balance Reserves and Designations

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditure or (2) legally segregated for a specific future use. The reserves for related assets such as prepaid items are examples of the former. Reserves for Risk Management are examples of the latter.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Livingston County Community Mental Health Authority
Notes To Financial Statements

Inpatient / Residential Cost Liability

The amount recorded for inpatient/residential liability is based on management's estimate. This estimate is based on 1) the number of clients at each facility, 2) the number of days each client is at each facility, and 3) the daily rate charged for each facility.

The Authority does not receive actual billings for these services until several months after the service date. Therefore, the liability is not liquidated within the normal 60 day period after year end. Also, the actual cost may vary from the estimated due to reimbursements from third party payors that are applied to the total cost before the billings are sent to the Authority.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted at the function level and on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. All annual appropriations lapse at fiscal year end. The Authority does not maintain a formalized encumbrance accounting system. The budgeted revenues and expenditures, as presented in this report, include any authorized amendments to the original budget as adopted.

Excess Of Expenditures Over Appropriations

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended September 30, 2005, the Authority did not incur any expenditure in excess of the amounts appropriated.

Livingston County Community Mental Health Authority
Notes To Financial Statements

NOTE 3 - DETAIL NOTES

Cash and Cash Equivalents

At year end, the carrying amount of deposits for the Authority was \$3,342,515, and the bank balance was \$3,621,275. Of the bank balance, \$100,000 was covered by federal depository insurance and the remaining, was uninsured and uncollateralized. The Authority also maintains \$990 of petty cash at various locations.

The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Authority evaluates each financial institution with which it deposits government funds and accesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

Due from Other Governmental Units

Due from other governmental units as of September 30, consists of the following:

	2005	2004
State of Michigan – Medicaid	\$94,328	\$163,362
Various Federal Grants	76,647	154,597
Washtenaw CMH	1,171,049	837,999
Michigan Department of Community Health – 1998 / 1999 Audit Appeal	-	64,780
Other Governmental Units	64,202	71,148
Totals	\$1,406,226	\$1,291,886

Livingston County Community Mental Health Authority
Notes To Financial Statements

Changes in Fixed Assets

A summary of changes in the general fixed assets account group is as follows:

Assets	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$115,000	-	-	\$115,000
Buildings and Improvements	1,039,398	-	(\$62,024)	977,374
Equipment	121,819	-	-	121,819
Furniture and Fixtures	48,910	-	-	48,910
Computers	257,559	\$7,565	(5,704)	259,420
Automobiles	180,164	-	-	180,164
Sub-totals	1,762,850	7,565	(67,728)	1,702,687
Accumulated Depreciation	(625,385)	(89,611)	18,722	(696,274)
Totals	\$1,137,465	(\$82,046)	(\$49,006)	\$1,006,413

Depreciation expense was charged to the Health & Welfare – Mental Health Program.

Due To Other Governmental Units

Due to other governmental units as of September 30, consist of the following:

	2005	2004
DCH – Cost Settlement	\$423,450	\$122,892
DCH – Transfer of Internal Service Fund	-	57,773
Washtenaw CMH – Transfer of Internal Service Fund	-	106,339
Washtenaw CMH – Medicaid Cost Settlement	-	224,261
Michigan Employment Security Commission	55,396	163,240
Other Governmental Units	1,000	4,470
Totals	\$479,846	\$678,975

Livingston County Community Mental Health Authority
Notes To Financial Statements

Accrued Wages And Other Payroll Liabilities

This liability represents amounts paid to employees during October that was earned during September. Also included are employer payroll taxes.

Long-Term Debt – Compensated Absences

Authority policy allows full time employees to accumulate vacation days at various rates, depending on the employee's length of service with the Authority. Amounts accumulated up to a maximum of 20 days are to be paid to the employee and recognized as an expense either when paid time off is used or upon termination of employment. As of September 30, 2005 and 2004, this liability was \$180,493 and \$160,112, respectively.

Long-Term Debt – Vehicle Loans

The Authority entered into an installment contract for the purchase of a vehicle during the 2003 fiscal year. Payments are due monthly in the amount of \$558.73, including interest at the rate of 0% per annum. As of September 30, 2005, the balance of this installment contract is \$12,293.

The Authority entered into an installment contract for the purchase of a vehicle during the 2004 fiscal year. Payments are due monthly in the amount of \$400.67, including interest at the rate of 9.5% per annum. As of September 30, 2005, the balance of this installment contract is \$9,598.

The annual installments to pay principal and interest on obligations outstanding at September 30, 2005 are as follows, including total interest payments of \$1,299:

Year Ended September 30,	Amount
2006	11,513
2007	10,396
2008	1,281
2009	-

Livingston County Community Mental Health Authority
Notes To Financial Statements

Below are the changes in the general long-term debt during the September 30, 2005 fiscal year:

Liability	Beginning Balance	Additions	Reductions	Ending Balance
Compensated Absences	\$160,112	\$20,381	-	\$180,493
Vehicle Installment Contracts	32,567	-	\$10,676	21,891
Totals	\$192,679	\$20,381	\$10,676	\$202,384

Compliance Audits

All governmental grants are subject to a transactional and compliance audit by the grantors or their representatives. Therefore, an indeterminable contingency exists for expenditures that may be disallowed by the granting agencies.

Fund Equity Reserves

A portion of the fund balance at September 30 has been reserved equal to the amount of prepaid expenses, since prepaid expenses do not constitute "available spendable resources."

A portion of the fund balance at September 30 has been reserved equal to the excess of revenues over expenses for the Children's Pooled Funding Initiative.

Michigan Department of Community Health – Compliance Audit / Prior Period Adjustment

The Authority was subjected to a MDCH contract compliance audit for the year beginning October 1, 1998 and ending September 30, 1999. On October 10, 2001, the MDCH finalized this compliance audit by requesting an \$85,489 payback from the Authority. The majority of this liability relates to the Authority expensing fixed assets purchased during the year in question instead of depreciating them. On December 29, 2004, the Circuit Court for the County of Livingston ruled against the MDCH, reducing the original liability of \$85,489 down to \$20,709. This liability was liquidated during the 2004 year, resulting in a prior period adjustment of \$4,309. The additional \$16,400 was recognized as a liability in a previous fiscal year. The prior period adjustment for the 2005 year is the difference between assets and liabilities as of September 30, 2004, and the amounts liquidated as of September 30, 2005.

Livingston County Community Mental Health Authority
Notes To Financial Statements

Operating Leases

Livingston County Community Mental Health Authority has entered into various operating leases for the use of real and personal property. The following is a schedule of future minimum rental payments required under the operating leases that have initial or remaining non-cancelable lease terms as of September 30, 2005:

YEAR ENDING SEPTEMBER 30,	AMOUNT
2006	\$202,285
2007	203,799
2008	200,186
2009	201,468
2010	202,512
2011-2015	1,017,373
2016-2020	1,025,685
2021-2025	1,010,375

Retirement Systems

MERS

Plan Description

The Authority participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers substantially all of the employees of the Authority. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to Gabriel, Roeder, Smith & Company, One Towne Square, Suite 800, Southfield, Michigan 48076.

The most recent period for which actuarial data was available was for the year ended December 31, 2004. The Authority's payroll for the employees covered by the system for the year ended December 31, 2004 was \$4,729,406

Livingston County Community Mental Health Authority
Notes To Financial Statements

Funding Policy

Under the provisions of the plan, employees contribute 5% of annual compensation. The amount of employer contributions is determined on a yearly basis. For the year ending September 30, 2005, employer contributions to this retirement plan was \$437,107.

For the 2005 fiscal year, employer contributions were at a rate of 9.2% of eligible employee wages.

At December 31, 2004, the pension benefit obligation was more than the assets by \$996,788, determined as follows:

GASB 25 Information	
Actuarial Accrued Liability	
Retirees and beneficiaries currently receiving benefits	\$1,115,853
Terminated employees not yet receiving benefits	981,647
Non-vested terminated employees (pending refunds of accumulated member contributions)	0
Current Employees:	
Accumulated employee contributions including allocated investment income	12,429
Employer financed	6,022,723
Total actuarial accrued liability	8,132,652
Net assets available for benefits at actuarial value (market = \$6,965,454)	7,135,864
Unfunded (over funded) actuarial accrued liability	\$996,788
GASB 27 Information	
Fiscal Year Beginning	October 1, 2006
Annual Required Contribution (ARC)	\$424,704
Amortization factor used – under-funded liabilities (30 years)	.053632

Livingston County Community Mental Health Authority
Notes To Financial Statements

Three year trend information as of June 30 follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Over funded) AAL	Unfunded AAL as a Percentage of Annual payroll
12-31-02	\$5,496,689	\$6,767,692	\$1,271,003	27%
12-31-03	6,335,494	7,504,178	1,168,684	26%
12-31-04	7,135,864	8,132,652	996,788	21%

Money Purchase Pension Plan

Plan Description

Effective January 1, 1999, the Authority voted to join an optional retirement plan instead of the Social Security system. All employees of the Authority are eligible to participate in this Plan. Nationwide Life Insurance Company is the firm used to invest plan funds.

Funding Policy

All employees contribute a mandatory 6.2% of their wages to this plan. Employer contributions are 5.69% of compensation. Under this plan, employees are immediately 100% vested in their account.

Risk Management

Michigan Municipal Risk Management Authority

The Authority participated in the public entity risk pool – Michigan Municipal Risk Management Authority (MMRMA) for auto and general liability, property and crime and vehicle physical damage coverage.

MMRMA, a separate legal entity, is a self-insured association organized under the laws of the State of Michigan to provide self-insurance protection against loss and risk management services to various Michigan governmental entities.

As a member of this pool, the Authority is responsible for paying all costs, including damages, loss adjustment expenses and defense costs, for each occurrence that falls within the member's self-insured retention (SIR). The Authority's SIR is between \$-0- and \$250. If a covered loss exceeds MMRMA's limits, all further payments for such loss are the sole obligation of the Authority. If for any reason, the MMRMA's resources available to pay losses are depleted, the payment of all unpaid losses of the Authority is the sole obligation of the Authority.

Livingston County Community Mental Health Authority
Notes To Financial Statements

The Authority's coverage limit is \$15,000,000 for liability and between \$10,000 to \$200,000,000 for property and crime. The contribution made by the Authority to the MMRMA was \$44,512 for the 2005 fiscal year.

REQUIRED SUPPLEMENTAL INFORMATION

Livingston County Community Mental Health Authority
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget and Actual
General Fund
For the year ended September 30, 2005

	Budgeted Amounts		Actual	Variance Between Actual and Final Budget
	Original	Final		
Revenues				
State Grants				
MDCH - General fund contract	\$4,475,611	\$4,431,124	\$3,803,443	(\$627,681)
Other state grants	98,614	98,614	93,614	(5,000)
Total state grants	4,574,225	4,529,738	3,897,057	(632,681)
Federal grants	506,224	506,224	496,224	(10,000)
Contributions - local units				
County appropriations	600,468	600,468	600,468	-
Charges for services				
Medicaid - Washtenaw CMH	10,984,395	11,175,322	11,776,543	601,221
Medicaid - other	148,240	148,240	137,054	(11,186)
Other charges for services	417,409	417,409	372,457	(44,952)
Total charges for services	11,550,044	11,740,971	12,286,054	545,083
Interest and rents				
Interest	55,495	55,495	51,098	(4,397)
Rents	7,260	7,260	7,260	-
Total interest and rents	62,755	62,755	58,358	(4,397)
Other revenue				
Miscellaneous revenues	34,580	34,580	29,820	(4,760)
Total other revenue	34,580	34,580	29,820	(4,760)
Total revenues	17,328,296	17,474,736	17,367,981	(106,755)

See Accompanying Notes To Financial Statements

Livingston County Community Mental Health Authority
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget and Actual
General Fund
For the year ended September 30, 2005

	Budgeted Amounts		Variance Between Actual and Final Budget
	Original	Final	
Expenditures			
Health & Welfare - Mental Health			
Personnel costs	\$7,377,492	\$7,237,492	\$142,733
Operating expenditures	10,010,804	10,165,330	287,998
Capital outlay	-	7,565	-
Total expenditures	17,388,296	17,410,387	430,731
Revenues over (under) expenditures	(60,000)	64,349	323,976
Other financing sources (uses)			
Operating transfers in	176,654	176,654	(1,000)
Operating transfers out	(244,680)	(244,680)	-
Debt payments	-	(11,512)	-
Total other financing sources (uses)	(68,026)	(79,538)	(1,000)
Excess of revenues and other sources over expenditures and other uses	(128,026)	(15,189)	322,976
Fund balance, October 1	2,163,105	2,163,105	-
Prior period adjustment	-	-	6,796
Fund balance, September 30	\$2,035,079	\$2,147,916	\$329,772

See Accompanying Notes To Financial Statements

Livingston County Community Mental Health Authority
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget and Actual
Children's Pooled Funding Initiative
For the year ended September 30, 2005

	Budgeted Amounts			Variance
	Original	Final	Actual	Between Actual and Final Budget
Revenues				
Charges for services				
Local revenue	\$158,000	\$158,000	\$158,000	-
Total charges for services	<u>158,000</u>	<u>158,000</u>	<u>158,000</u>	<u>-</u>
Interest and rents				
Interest	9,500	9,500	10,381	\$881
Total revenues	<u>167,500</u>	<u>167,500</u>	<u>168,381</u>	<u>881</u>
Expenditures				
Health & Welfare - Mental Health				
Personnel costs	156,670	156,670	142,432	14,238
Operating expenditures	186,713	186,713	149,701	37,012
Capital outlay	-	-	-	-
Total expenditures	<u>343,383</u>	<u>343,383</u>	<u>292,133</u>	<u>51,250</u>
Revenues over (under) expenditures	<u>(175,883)</u>	<u>(175,883)</u>	<u>(123,752)</u>	<u>52,131</u>
Other financing sources (uses)				
Operating transfers in	244,680	244,680	244,680	-
Operating transfers out	<u>(176,797)</u>	<u>(176,797)</u>	<u>(175,654)</u>	<u>1,143</u>
Total other financing sources (uses)	<u>67,883</u>	<u>67,883</u>	<u>69,026</u>	<u>1,143</u>
Excess of revenues and other sources over expenditures and other uses	<u>(108,000)</u>	<u>(108,000)</u>	<u>(54,726)</u>	<u>53,274</u>
Fund balance, October 1	<u>551,876</u>	<u>551,876</u>	<u>551,876</u>	<u>-</u>
Fund balance, September 30	<u>\$443,876</u>	<u>\$443,876</u>	<u>\$497,150</u>	<u>\$53,274</u>

See Accompanying Notes To Financial Statements

OTHER SUPPLEMENTAL INFORMATION

Livingston County Community Mental Health Authority
Supporting Schedule of Personnel Costs
For the year ended September 30, 2005 and 2004

Governmental Fund Types

	<u>General Fund</u>	
	<u>2005</u>	<u>2004</u>
Personnel costs		
Salaries and wages	\$5,272,860	\$5,193,735
Fringe benefits	<u>1,821,899</u>	<u>1,803,786</u>
Total personnel costs	<u><u>\$7,094,759</u></u>	<u><u>\$6,997,521</u></u>

See Accompanying Notes To Financial Statements



MANAGEMENT LETTER

Board of Directors
Livingston County Community Mental Health Authority
Howell, Michigan

In planning and performing our audit of the financial statements for Livingston County Community Mental Health Authority for the fiscal year ended September 30, 2005, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This letter does not affect our audit report dated January 31, 2006 on the financial statements of Livingston County Community Mental Health Authority.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail, perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

Roslund, Prestage & Company, P.C.
Certified Public Accountants

January 31, 2006

GASB Statement No. 45

Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, was approved by the GASB in June of 2005. Other postemployment benefits are defined as postemployment benefits other than pensions that employees earn during their years of service but that they will not receive until after they stop working. They include all postemployment healthcare benefits and any other type of benefits that are provided separately from a pension plan.

The basic premise of GASB 45 is that other postemployment benefits are earned and should be recognized when the employee provides services, just like wages and compensated absences.

We recommend the Authority consider the effects of GASB 45 on any current or future postemployment benefits packages. The effective date for the Authority to implement this new standard is for the fiscal year ending September 30, 2009. However, earlier application is encouraged by the GASB.

Monitor Accounts Receivable and Timely Bill for Services Provided

During the 2005 fiscal year, the Authority implemented new accounting and reporting software for various centralized computer functions. During the implementation process, the Authority was unable to timely bill payors for services provided.

In the future, we recommend management bill for services provided on a timely basis because we believe that once a receivable is over 90 days old, it becomes increasingly difficult to collect. Uncollected accounts result in a direct decrease in fund balance and also a reduction of interest income.